

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of South Lyon</u>	County Oakland
Audit Date June 30, 2005	Opinion Date August 19, 2005	Date Accountant Report Submitted To State: October 31, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 1000 Oakbrook Drive	City Ann Arbor	State MI	ZIP 48104
Accountant Signature 			

City of South Lyon, Michigan

**Financial Report
with Supplemental Information
June 30, 2005**

**City of South Lyon, Michigan
Financial Report
June 30, 2005**

Mayor John Doyle, Jr.

City Council

Ray Crawford, Mayor Pro Tem

Tedd M. Wallace

Ray Dryer

Don Schwarck

City Administration

City Manager

City Clerk/Treasurer

Police Chief

Fire Chief

Water and Wastewater Treatment Superintendent

Department of Public Works Superintendent

Director of Community and Economic Development

Building/Zoning Inspector

Building Inspector

Bookkeeper

Rodney L. Cook

Julie C. Zemke

Lloyd Collins

Craig Kaska

Robert Martin

Steve Renwick

Kristen Cunningham

Joe Veltri

Michael Jakubowski

Lori Mosier

City of South Lyon, Michigan

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Independent Auditor's Report

To the Members of the City Council
City of South Lyon, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of South Lyon, Michigan as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of South Lyon, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of South Lyon, Michigan as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparisons are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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To the Members of the City Council
City of South Lyon, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of South Lyon, Michigan's basic financial statements. The accompanying other supplemental information and statistical section, as identified in the table of contents, are presented for the purpose of additional analysis and are not required parts of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statement and, accordingly, we express no opinion in it.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the City of South Lyon, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

August 19, 2005

City of South Lyon, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of South Lyon, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this management's discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2005:

- Expenditures exceeded revenue in the General Fund, thus lowering fund balance by approximately \$276,000. This was due primarily to an underestimate in the number of fire department runs, a legal settlement with Consumer's Energy, and an unanticipated purchase of necessary equipment in the police department. Also, the decrease in state-shared revenue was more than anticipated. These issues account for the bulk of the decrease in fund balance.
- Total net assets related to the City's governmental activities increased by approximately \$5,025,000.
- The construction of the new wastewater treatment plant proceeded as planned. The plant should be operational in November 2005.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayer's resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds.

City of South Lyon, Michigan

Management's Discussion and Analysis (Continued)

The City of South Lyon as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2005 and 2004 (in thousands):

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current assets	\$ 8,315	\$ 8,683	\$ 10,194	\$ 10,298	\$ 18,509	\$ 18,981
Noncurrent assets	20,640	15,650	31,020	26,972	51,660	42,622
Total assets	28,955	24,333	41,214	37,270	70,169	\$ 61,603
Liabilities						
Current liabilities	2,146	1,899	1,273	1,910	3,419	3,809
Long-term liabilities	2,722	3,373	15,415	11,481	18,137	14,854
Total liabilities	4,868	5,272	16,688	13,391	21,556	18,663
Net Assets						
Invested in capital assets - Net of related debt	17,542	12,551	15,526	15,490	33,068	28,041
Restricted	2,082	1,420	7,108	1,299	9,190	2,719
Unrestricted	4,463	5,090	1,892	7,090	6,354	12,180
Total net assets	<u>\$ 24,087</u>	<u>\$ 19,061</u>	<u>\$ 24,526</u>	<u>\$ 23,879</u>	<u>\$ 48,612</u>	<u>\$ 42,940</u>

The City's combined net assets increased 13.2 percent from a year ago - increasing from \$42,939,848 to \$48,612,844. Net assets of both the governmental and business-type activities increased during the year. This is an indication that the taxpayers and users of City services paid the full cost of providing those services in the current year. This measurement is one of the goals of full accrual financial statement presentation.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, did not change significantly for the governmental activities. The current level of unrestricted net assets related to governmental activities is a surplus of \$4,462,641.

City of South Lyon, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the years ended June 30, 2005 and 2004 (in thousands):

TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Net Assets - Beginning of year	\$ 19,061	\$ 18,255	\$ 23,879	\$ 23,374	\$ 42,940	\$ 41,629
Revenue						
Program revenue:						
Charges for services	775	805	2,007	2,017	2,782	2,822
Operating grants and contributions	565	649	-	-	565	649
Capital grants and contributions	4,701	445	438	522	5,139	967
General revenue:						
Property taxes	3,888	3,687	861	801	4,749	4,488
State-shared revenue	859	909	-	-	859	909
Interest	126	63	138	64	264	127
Transfers and other revenue	56	(11)	(56)	11	-	-
Total revenue	10,970	6,547	3,388	3,415	14,358	9,962
Program Expenses						
General government	1,158	1,127	-	-	1,158	1,127
Public safety	2,563	2,335	-	-	2,563	2,335
Public works	1,864	1,780	-	-	1,864	1,780
Community and economic development	126	34	-	-	126	34
Cultural and recreation	41	252	-	-	41	252
Interest on long-term debt	192	213	-	-	192	213
Water and sewer	-	-	2,741	2,910	2,741	2,910
Total program expenses	5,944	5,741	2,741	2,910	8,685	8,651
Change in Net Assets	5,026	806	647	505	5,673	1,311
Net Assets - End of year	<u>\$ 24,087</u>	<u>\$ 19,061</u>	<u>\$ 24,526</u>	<u>\$ 23,879</u>	<u>\$ 48,613</u>	<u>\$ 42,940</u>

Governmental Activities

The City's total governmental revenues increased by approximately \$4,424,000, due to the contribution of approximately \$4,700,000 of governmental fixed assets. The increase represents a 68 percent jump from the prior year.

City of South Lyon, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund. We provide water and sewage treatment to residents from our own system. In 2005, it was a drier year than 2004, which resulted in increased usage in the water system. The City Council did not increase the water and sewer rate during 2004-2005.

The City of South Lyon's Funds

Our analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The South Lyon City Council creates funds to help manage money for specific purposes, as well as to show accountability for certain activities, such as major and local road maintenance and debt service. The City's major funds for 2005 include the General Fund, the Capital Improvements Fund, the 1996 Building Authority Fund, and the Water and Sewer Fund.

The General Fund pays for most of the City's governmental services. The most significant is the police department, which incurred expenses of approximately \$1,965,000 in 2005. Other government services accounted for in the General Fund include general government, the department of public works, the fire department, and recreation.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget on four occasions to account for changes made necessary due to unanticipated events or situations requiring increased expenditures within the fire department, Historic Depot, General Fund administration (legal) and ordinance enforcement, increased cost for construction for our park system (fencing), and increased cost for removal of Detroit Edison street lighting.

City departments overall stayed below budget. The City maintained total expenditures \$192,000 below budget.

Capital Asset and Debt Administration

At the end of 2005, the City had approximately \$52,000,000 invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines. In addition, the City has invested significantly in roads within the City.

City of South Lyon, Michigan

Management's Discussion and Analysis (Continued)

The water and wastewater treatment department made major investments during the 2004-2005 fiscal year as a result of the ongoing construction of the new wastewater treatment plant. A total of \$14,374,886 of new construction costs has been capitalized as of June 30, 2005 including capitalization of \$4,088,508 of new construction costs during the 2004-2005 fiscal year. The construction is being financed by a loan from the State of Michigan Revolving Fund that will be paid over 20 years beginning in October 2006.

Economic Factors and Next Year's Budgets and Rates

The City's budget for next year takes into consideration another potential decrease in state-shared revenues; however, given our healthy fund balance, we do not anticipate any reductions in service levels based on potential revenue reductions. Over the years, the City has had the flexibility to adjust various ad valorem tax rates as necessary and as determined by Headlee, Truth in Taxation, and Proposal A. The state-wide Tax Reform Acts limit growth in taxable value to inflation or 5 percent, whichever is less. Inflation rates in recent years have only been in the range of 1.6 percent to 3.2 percent.

Due to the continuing residential growth within the City's corporate boundaries, our taxable tax base has continued to increase between \$15,000,000 and \$28,000,000 annually. Additionally, as existing homes are sold, their taxable value becomes "uncapped" at the time of exchange and is increased to the higher State Equalized Value. After the exchange, the annual limitations required by the Headlee Amendment and Proposal A begin to apply from that date forward; however, when there are exchanges, the City may experience an increase in taxable value on those properties.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the city manager's office.

City of South Lyon, Michigan

Statement of Net Assets June 30, 2005

	Primary Government			Component Unit -
	Governmental	Business-type		Downtown
	Activities	Activities	Total	Development
				Authority
Assets				
Cash and cash equivalents (Note 3)	\$ 7,581,802	\$ 1,463,687	\$ 9,045,489	\$ 107,074
Receivables (Note 4)	1,244,334	700,983	1,945,317	-
Internal balances	(595,905)	595,905	-	-
Inventories	-	3,025	3,025	-
Prepaid costs and other assets	85,181	21,595	106,776	-
Restricted assets	-	7,408,438	7,408,438	-
Capital assets (Note 5):				
Not being depreciated	3,195,804	15,803,459	18,999,263	-
Depreciable - Net	17,444,120	15,217,321	32,661,441	-
Total assets	28,955,336	41,214,413	70,169,749	107,074
Liabilities				
Accounts payable	250,702	1,010,323	1,261,025	-
Accrued and other liabilities	458,949	183,120	642,069	-
Deferred revenue (Note 4)	760,455	-	760,455	-
Long-term debt (Note 7):				
Due within one year	676,278	80,000	756,278	-
Due in more than one year	2,722,192	15,414,886	18,137,078	-
Total liabilities	4,868,576	16,688,329	21,556,905	-
Net Assets				
Invested in capital assets -				
Net of related debt	17,542,022	15,525,894	33,067,916	-
Restricted (Note 11)	2,082,097	7,108,235	9,190,332	-
Unrestricted	4,462,641	1,891,955	6,354,596	107,074
Total net assets	\$ 24,086,760	\$ 24,526,084	\$ 48,612,844	\$ 107,074

City of South Lyon, Michigan

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 1,158,484	\$ 497,461	\$ 29,127	\$ -
Public safety	2,563,214	62,531	-	-
Public works	1,864,199	67,526	490,124	4,701,400
Community and economic development	126,386	147,607	45,645	-
Cultural and recreation	41,034	-	-	-
Interest on long-term debt	192,213	-	-	-
Total governmental activities	5,945,530	775,125	564,896	4,701,400
Business-type activities - Water and sewer	2,741,409	2,006,737	-	438,379
Total primary government	<u>\$ 8,686,939</u>	<u>\$ 2,781,862</u>	<u>\$ 564,896</u>	<u>\$ 5,139,779</u>
Component unit - Downtown Development Authority	<u>\$ 10,494</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Interest				
Transfers				
Total general revenues				
Change in Net Assets				
Net Assets - July 1, 2004				
Net Assets - June 30, 2005				

Statement of Activities
Year Ended June 30, 2005

Net (Expense) Revenue and Changes in Net Assets			
Primary Government		Total	Component Unit
Governmental Activities	Business-type Activities		
\$ (631,896)	\$ -	\$ (631,896)	\$ -
(2,500,683)	-	(2,500,683)	-
3,394,851	-	3,394,851	-
66,866	-	66,866	-
(41,034)	-	(41,034)	-
(192,213)	-	(192,213)	-
95,891	-	95,891	-
-	(296,293)	(296,293)	-
95,891	(296,293)	(200,402)	-
-	-	-	(10,494)
3,888,340	861,384	4,749,724	34,374
859,102	-	859,102	-
126,120	138,452	264,572	1,279
56,150	(56,150)	-	-
4,929,712	943,686	5,873,398	35,653
5,025,603	647,393	5,672,996	25,159
19,061,157	23,878,691	42,939,848	81,915
\$ 24,086,760	\$ 24,526,084	\$ 48,612,844	\$ 107,074

City of South Lyon, Michigan

Governmental Funds Balance Sheet June 30, 2005

	General Fund	Special Revenue Fund - Capital Improvements Fund	Debt Service Fund - Building Authority Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 3,064,374	\$ 2,582,612	\$ 181,076	\$ 1,753,740	\$ 7,581,802
Customer receivables	245,655	-	-	-	245,655
Due from other funds	-	-	-	3,277	3,277
Due from South Lyon Community Schools (Note 4)	-	-	760,455	-	760,455
Due from other governmental units	135,001	-	-	103,223	238,224
Other current assets	77,960	-	-	7,221	85,181
Total assets	\$ 3,522,990	\$ 2,582,612	\$ 941,531	\$ 1,867,461	\$ 8,914,594
Liabilities					
Accounts payable	\$ 124,466	\$ 120,864	\$ -	\$ 5,372	\$ 250,702
Accrued and other liabilities	127,671	-	-	6,759	134,430
Due to other funds	3,726	595,456	-	-	599,182
Due to other governmental units	959	-	-	-	959
Cash bonds and deposits	299,391	-	-	-	299,391
Deferred revenue	-	-	760,455	-	760,455
Total liabilities	556,213	716,320	760,455	12,131	2,045,119
Fund Balances					
Reserved for future cemetery expenditures	-	-	-	573,049	573,049
Reserved for construction	-	380,000	-	-	380,000
Unreserved - Reported in major funds	2,819,312	1,486,292	181,076	-	4,486,680
Unreserved - Reported in nonmajor funds:					
Special Revenue Funds	-	-	-	1,199,246	1,199,246
Debt Service Funds	-	-	-	55,929	55,929
Unreserved - Designated for subsequent year's expenditures:					
General Fund	147,465	-	-	-	147,465
Special Revenue Funds	-	-	-	19,162	19,162
Debt Service Funds	-	-	-	7,944	7,944
Total fund balances	2,966,777	1,866,292	181,076	1,855,330	6,869,475
Total liabilities and fund balances	\$ 3,522,990	\$ 2,582,612	\$ 941,531	\$ 1,867,461	\$ 8,914,594

Reconciliation of the Balance Sheet to the Statement of Net Assets June 30, 2005

Fund Balance - Total Governmental Funds	\$ 6,869,475
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	20,639,924
Accrued interest on long-term liabilities is not reported in the funds	(24,169)
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(3,398,470)
Net Assets - Governmental Activities	\$ 24,086,760

City of South Lyon, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2005

	General Fund	Special Revenue Fund - Capital Improvements Fund	Debt Service Fund - Building Authority Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 2,835,530	\$ 792,686	\$ 218,903	\$ 41,221	\$ 3,888,340
Federal sources	9,375	-	-	-	9,375
State sources	878,854	-	-	490,124	1,368,978
Local sources	-	-	147,607	-	147,607
Licenses and permits	122,245	-	-	-	122,245
Charges for services	306,341	-	-	54,000	360,341
Fines and forfeitures	40,648	-	-	-	40,648
Interest and other	205,814	28,998	3,514	85,223	323,549
Total revenues	4,398,807	821,684	370,024	670,568	6,261,083
Expenditures					
General government	1,166,757	-	-	-	1,166,757
Public safety	2,472,354	-	-	-	2,472,354
DPW, cemetery, and road improvements	836,957	425,042	-	1,040,936	2,302,935
Cultural and recreation	153,173	-	-	-	153,173
Capital outlay	-	-	-	54,018	54,018
Debt service	-	-	366,048	128,215	494,263
Total expenditures	4,629,241	425,042	366,048	1,223,169	6,643,500
Excess of Revenues Over (Under) Expenditures	(230,434)	396,642	3,976	(552,601)	(382,417)
Other Financing Sources (Uses)					
Operating transfers in from other funds (Note 6)	-	-	-	966,648	966,648
Operating transfers out to other funds (Note 6)	(51,732)	(775,773)	-	(82,993)	(910,498)
Operating transfers in from component unit (Note 6)	6,500	-	-	-	6,500
Proceeds from issuance of long-term debt	-	380,000	-	-	380,000
Total other financing sources (uses)	(45,232)	(395,773)	-	883,655	442,650
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	(275,666)	869	3,976	331,054	60,233
Fund Balances - July 1, 2004	3,242,443	1,865,423	177,100	1,524,276	6,809,242
Fund Balances - June 30, 2005	<u>\$ 2,966,777</u>	<u>\$ 1,866,292</u>	<u>\$ 181,076</u>	<u>\$ 1,855,330</u>	<u>\$ 6,869,475</u>

City of South Lyon, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds	\$ 60,233
---	------------------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	288,445
--	---------

Dedicated roads donated by developers are not recorded in the fund-based statements	4,701,400
---	-----------

Proceeds from issuance of long-term debt is recorded as revenue in the fund-based statements	(380,000)
--	-----------

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	380,185
---	---------

Change in accrued interest on long-term debt is not recorded in the governmental funds	1,180
--	-------

Increase in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	<u>(25,840)</u>
---	-----------------

Change in Net Assets of Governmental Activities	<u><u>\$ 5,025,603</u></u>
--	-----------------------------------

City of South Lyon, Michigan

Proprietary Fund Statement of Net Assets - Enterprise Fund Water and Sewer Fund June 30, 2005

Assets

Current assets:	
Cash and cash equivalents	\$ 1,463,687
Receivables:	
Customers	642,125
Due from other governmental units	58,858
Due from other funds	599,182
Other current assets	21,595
Total current assets	2,785,447
Noncurrent assets:	
Other long-term assets	3,025
Restricted assets	7,408,438
Capital assets	31,020,780
Total noncurrent assets	38,432,243
Total assets	41,217,690

Liabilities

Accounts payable	1,010,323
Accrued and other liabilities	183,120
Due to other funds	3,277
Current portion of long-term debt	80,000
Total current liabilities	1,276,720
Long-term debt - Net of current portion	15,414,886
Total liabilities	16,691,606

Net Assets

Investment in capital assets - Net of related debt	15,525,894
Restricted	7,108,235
Unrestricted	1,891,955
Total net assets	\$ 24,526,084

City of South Lyon, Michigan

Proprietary Fund Statement of Revenue, Expenses, and Changes in Net Assets Enterprise Fund - Water and Sewer Fund Year Ended June 30, 2005

Operating Revenues

Water sales	\$ 558,504
Sewage disposal	870,343
Refuse collection	430,816
Billing and collection charges	81,294
Hydrant rental	25,050
Penalties assessed	19,910
Total operating revenues	1,985,917

Operating Expenses

Personnel services:	
Salaries and wages	515,783
Fringe benefits	274,178
Equipment repairs and maintenance	181,936
Public utilities	260,303
Refuse collection	437,539
Depreciation and amortization	765,301
Other services and charges	126,453
Supplies	146,220
Insurance	32,946
Other	750
Total operating expenses	2,741,409

Operating Loss (755,492)

Nonoperating Revenue

Property taxes	861,384
Interest income	138,452
Other income	20,820
Total nonoperating revenue	1,020,656

Loss - Before other financing uses and capital contributions 265,164

Other Financing Uses - Operating transfers out (Note 6) (56,150)

Capital Contributions 438,379

Change in Net Assets 647,393

Net Assets - July 1, 2004 23,878,691

Net Assets - June 30, 2005 \$ 24,526,084

City of South Lyon, Michigan

Proprietary Fund Statement of Cash Flows - Enterprise Fund - Water and Sewer Fund Year Ended June 30, 2005

Cash Flows from Operating Activities

Receipts from customers	\$ 1,996,644
Payments to suppliers	(1,476,627)
Payments to employees	(706,208)
Internal activity - Payments to other funds	<u>(593,952)</u>
Net cash used in operating activities	(780,143)

Cash Flows from Capital and Related Financing Activities

Collection of customer assessments	438,379
Proceeds from long-term debt	4,618,087
Principal and interest paid on long-term debt	(356,502)
Property tax revenue received	861,384
Operating transfers to Debt Service Funds	(56,150)
Purchase of capital assets	<u>(5,041,696)</u>
Net cash provided by capital and related financing activities	463,502

Cash Flows from Investing Activities - Interest received on investments 159,272

Net Decrease in Cash and Cash Equivalents (157,369)

Cash and Cash Equivalents - July 1, 2004 9,029,494

Cash and Cash Equivalents - June 30, 2005 \$ 8,872,125

Balance Sheet Classification of Cash and Cash Equivalents

Cash and cash equivalents	\$ 1,463,687
Restricted assets (Note 3)	<u>7,408,438</u>
Total	<u><u>\$ 8,872,125</u></u>

Reconciliation of Operating Loss to Net Cash from Operating Activities

Operating loss	\$ (755,492)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	765,301
Changes in assets and liabilities:	
Receivables	24,624
Due from other funds	(593,952)
Prepaid and other assets	(13,898)
Accounts payable	(290,479)
Accrued and other liabilities	<u>83,753</u>
Net cash used in operating activities	<u><u>\$ (780,143)</u></u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of South Lyon, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

The City is governed by an elected five-member council. The accompanying financial statements present the City of South Lyon, Michigan and its component unit, an entity for which the City is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City and separate financial statements are not issued for the component unit.

The South Lyon Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to acquire and lease property to the City.

Discretely Presented Component Unit

- a. The Downtown Development Authority ("DDA") of the City is reported in a separate column to emphasize that it is legally separate from the City. The DDA was created in an effort to correct and prevent the deterioration of the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body, which consists of nine individuals, is appointed by the city manager and confirmed by the City Council. In addition, the DDA's budget is subject to approval by the City Council. The DDA does not issue a separate financial report.
- b. The Economic Development Corporation ("EDC") was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to residents of the City. The EDC's governing body consists of seven individuals who are appointed by the City Council. The EDC had no activity during the fiscal year ended June 30, 2005, and has no financial resources as of June 30, 2005. Accordingly, there is no financial information for the EDC included in these financial statements.

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the Downtown Development Authority, a legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and the proprietary fund. Major individual governmental funds and the major individual Enterprise Fund are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, special assessments, state-shared revenue, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Sales taxes collected and held by the State at year end on behalf of the City also are recognized as revenue. All other revenue items, such as fines and permits, are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Capital Improvements Fund - The Capital Improvements Fund is used to account for special tax levies and other resources used for the development of various capital assets acquired or constructed by the City.

1996 Building Authority Fund - The 1996 Building Authority Fund is used primarily to account for transactions between the City and South Lyon Community Schools in relation to the joint administration building.

The City reports the following major proprietary fund:

Enterprise Fund - Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Note 1 - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary fund relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." No allowance for uncollectible accounts had been recorded, as the City believes all receivables will be collected.

Property Taxes - Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are due on September 15 with the final collection date of February 28 before they are added to the delinquent county tax rolls.

The 2004 taxable valuation of the City totaled approximately \$348.7 million, on which ad valorem taxes levied consisted of 11.2500 mills for the City's operating purposes and 2.5000 mills for water and sewer debt service. The ad valorem taxes levied raised approximately \$3.9 million for City operations and approximately \$861,000 for water and sewer debt service. These amounts are recognized in the respective General Fund, Special Revenue Funds, Debt Service Funds, and Enterprise Fund financial statements as taxes receivable or as tax revenue.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Restricted Assets - Restricted assets consist of cash and cash equivalents held for water and wastewater system improvements and equipment replacement. Included in this amount is a portion of water and sewer tap-in fees required by local ordinance to be restricted for improvements. Restricted tap-in fees totaled approximately \$413,000 for the year ended June 30, 2005.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and a useful life of greater than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Roads, buildings, equipment, and vehicles are depreciated using the straight-line method over their estimated useful lives:

Wastewater treatment plant and equipment	10 to 40 years
Water treatment plant and equipment	10 to 40 years
Utility system, buildings, and improvements	17 to 40 years
Roads and sidewalks	20 to 25 years
Buildings and improvements	15 to 40 years
Other tools, furniture, and equipment	5 to 15 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Under the City's policy, employees earn sick and vacation time based on time of service with the City. All vacation and sick pay is accrued when incurred in the government-wide financial statements. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. On the governmental fund financial statements, the face amount of debt issued is reported as other financing sources.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General and all Special Revenue Funds, except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)."

The annual budget is prepared by the City Manager and submitted to the City Council at its meeting nearest the third Monday in April of each year. The budget is adopted by the City Council no later than the second regular City Council meeting in May. Subsequent amendments are approved by the City Council. Amendments may be made by the City Council up until the last day of the fiscal year. The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law.

Unexpended appropriations lapse at year end. The amount of encumbrances outstanding at June 30, 2005 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

A comparison of the actual results of operations to the budgeted amounts (at the level of control adopted by the City Council) for the General Fund and Major Special Revenue Funds is presented as required supplemental information. Information comparing other Special Revenue Funds activity to the respective budgets can be obtained at City Hall.

During the year, the City did not incur expenditures in excess of the amounts budgeted.

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated three banks for the deposit of City funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts and CDs, and such obligations, bonds, and securities as permitted by the statutes of the State of Michigan.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$16,088,512 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The entire balance of the component units' deposits was covered by federal depository insurance. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of South Lyon, Michigan

Notes to Financial Statements June 30, 2005

Note 4 - Receivables

The City's receivables of governmental and business activities are as follows:

	Governmental Activities					
	General Fund	Capital Improvements Fund	1996 Building Authority Fund	Nonmajor and Other Funds	Total Governmental Activities	Total Business-type Activities
Receivables:						
Customers	\$ 245,655	\$ -	\$ -	\$ -	\$ 245,655	\$ 642,125
Intergovernmental	135,001	-	-	103,223	238,224	58,858
South Lyon Community Schools	-	-	760,455	-	760,455	-
Total receivables	<u>\$ 380,656</u>	<u>\$ -</u>	<u>\$ 760,455</u>	<u>\$ 103,223</u>	<u>\$ 1,244,334</u>	<u>\$ 700,983</u>

The City considers all receivables to be collectible and has not recorded an allowance for doubtful accounts.

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds and governmental activities also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, deferred revenue consists of payments not yet earned or received from the South Lyon Community Schools (the "Schools") in relation to the lease agreement between the City and the Schools.

In a prior year, the South Lyon Building Authority, in cooperation with the City and the Schools, constructed a joint administrative building. The City entered into a lease agreement with the South Lyon Building Authority relating to the use of the administrative building. In addition, the Schools entered into a lease agreement with the City to sublease a portion of the building. Under the terms of these agreements, the City's and the Schools' rental payments will equal an amount sufficient to pay the debt service requirements and other related costs. The rental payments by the City and the Schools are based on the amount of allocated space utilized by each entity. As of June 30, 2005, the City's and the Schools' estimated share of the debt service was 41.95 percent and 58.05 percent, respectively.

Ownership of the building and land will be transferred at no cost to the Schools upon full payment and retirement of the bonds and the receipt of all rental payments by the City. However, the City has met the requirement to record the building as a capital lease and has accordingly recorded 41.95 percent of the cost and the debt balance in governmental activities.

City of South Lyon, Michigan

Notes to Financial Statements June 30, 2005

Note 4 - Receivables (Continued)

As of June 30, 2005, the estimated future minimum lease payments to be received by the City from the Schools are as follows:

2006	\$ 148,207
2007	148,608
2008	148,608
2009	151,220
2010	150,495
2011	<u>152,381</u>
Total	899,519
Less portion representing interest	<u>(139,064)</u>
Net	<u>\$ 760,455</u>

Note 5 - Capital Assets

Capital asset activity of the primary government's governmental and business-type activities was as follows:

	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005	Depreciable Life - Years
Governmental Activities					
Capital assets not being depreciated - Land	\$ 3,195,804	\$ -	\$ -	\$ 3,195,804	-
Capital assets being depreciated:					
Roads and sidewalks	9,654,959	5,464,738	-	15,119,697	20-25
Buildings and improvements	5,492,255	463,189	-	5,955,444	15-40
Other tools, furniture, and equipment	<u>2,350,084</u>	<u>252,908</u>	<u>(15,166)</u>	<u>2,587,826</u>	5-15
Subtotal	17,497,298	6,180,835	(15,166)	23,662,967	
Accumulated depreciation:					
Roads and sidewalks	2,632,580	642,226	-	3,274,806	
Buildings and improvements	910,899	184,713	-	1,095,612	
Other tools and equipment	<u>1,499,544</u>	<u>364,051</u>	<u>(15,166)</u>	<u>1,848,429</u>	
Subtotal	<u>5,043,023</u>	<u>1,190,990</u>	<u>(15,166)</u>	<u>6,218,847</u>	
Net capital assets being depreciated	<u>12,454,275</u>	<u>4,989,845</u>	<u>-</u>	<u>17,444,120</u>	
Net capital assets	<u>\$ 15,650,079</u>	<u>\$ 4,989,845</u>	<u>\$ -</u>	<u>\$ 20,639,924</u>	

City of South Lyon, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets (Continued)

	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005	Depreciable Life - Years
Business-type Activities					
Capital assets not being depreciated:					
Land	\$ 147,317	\$ -	\$ -	\$ 147,317	-
Construction in progress	11,463,488	4,192,654	-	15,656,142	-
Total capital assets not being depreciated	11,610,805	4,192,654	-	15,803,459	
Capital assets being depreciated:					
Wastewater treatment plant and equipment	13,924,403	38,586	-	13,962,989	10-40
Water treatment plant and equipment	2,528,418	41,623	-	2,570,041	10-40
Utility system, buildings, and improvements	9,465,011	450,784	-	9,915,795	17-40
Other tools, furniture, and equipment	490,082	89,659	-	579,741	5-10
Subtotal	26,407,914	620,652	-	27,028,566	
Accumulated depreciation	11,046,982	764,263	-	11,811,245	
Net capital assets being depreciated	15,360,932	(143,611)	-	15,217,321	
Net capital assets	<u>\$ 26,971,737</u>	<u>\$ 4,049,043</u>	<u>\$ -</u>	<u>\$ 31,020,780</u>	

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 109,813
Public safety	261,910
Public works	754,120
Community and economic development	19,958
Recreation and culture	45,189

Total governmental activities \$ 1,190,990

Business-type activities - Enterprise Fund - Water and Sewer Fund \$ 764,263

Future Commitments - The City has entered into various contracts for capital improvements to the City's wastewater treatment plant. The improvements, totaling \$17,250,000, are being funded by a loan from the State of Michigan's State Revolving Fund (see Note 7). As of June 30, 2005, the improvements to the plant have totaled \$15,656,142.

City of South Lyon, Michigan

Notes to Financial Statements June 30, 2005

Note 6 - Interfund Balances and Operating Transfers

The composition of interfund receivables and payables balances is as follows:

Special Revenue Funds:

Major Roads Fund - Water and Sewer Fund	\$ 2,345
Local Roads Fund - Water and Sewer Fund	<u>932</u>
Total Special Revenue Funds	3,277

Enterprise Funds:

Water and Sewer Fund - Capital Improvement Fund	595,456
Water and Sewer Fund - General Fund	<u>3,726</u>
Total Enterprise Funds	<u>599,182</u>
Total interfund receivables	<u>\$ 602,459</u>

Interfund balances represent routine and temporary cash flow assistance.

The composition of operating transfers is as follows:

Operating Transfer Out	Operating Transfer In	Amount
General Fund	Local Road Fund	\$ 30,000
General Fund	Major Road Fund	<u>21,732</u>
Total General Fund		51,732
Special Revenue Funds:		
Major Road Fund	1996 Transportation Bonds Fund	50,265
Capital Improvements Fund	Major Road Fund	100,000
Capital Improvements Fund	Local Road Fund	<u>675,773</u>
Total Capital Improvements Fund		<u>775,773</u>
Total transfers out of Special Revenue Funds		826,038
Debt Service - 1996 Advance Refunding Bonds	2000 G.O. Water Bonds Fund	32,728
Downtown Development Authority	General Fund	6,500
Enterprise Funds - Water and Sewer Fund	2000 G.O. Water Bonds Fund	<u>56,150</u>
Total operating transfers		<u>\$ 973,148</u>

City of South Lyon, Michigan

Notes to Financial Statements June 30, 2005

Note 6 - Interfund Balances and Operating Transfers (Continued)

Transfers from the Major Road Fund and Enterprise - Water and Sewer Fund to the Debt Service Funds provide for debt payments. Transfers from the General Fund and the Capital Improvements Fund to the nonmajor governmental funds provide for capital improvements. Finally, transfers from the Downtown Development Authority to the General Fund provide for funds to pay for General Fund wages used for the Downtown Development Authority.

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government.

Long-term obligation activity can be summarized as follows:

	July 1, 2004	Additions	Reductions	June 30, 2005	Due Within One Year
Governmental Activities					
General obligation bonds:					
1996 Transportation Bonds	\$ 95,000	\$ -	\$ (45,000)	\$ 50,000	\$ 50,000
1996 Building Authority Bonds	1,490,000	-	(180,000)	1,310,000	190,000
1996 Advance Refunding Bonds	10,000	-	(10,000)	-	-
1999 Building Authority Bonds	1,125,000	-	(55,000)	1,070,000	55,000
2005 Building Authority Bonds	-	380,000	-	380,000	25,000
1991 Special assessment bonds - Nine Mile construction	15,000	-	(10,000)	5,000	5,000
Compensated absences	274,728	25,840	-	300,568	300,568
Installment purchase agreements:					
1996 fire truck installment contract	32,110	-	(32,110)	-	-
2000 fire truck installment contract	330,977	-	(48,075)	282,902	50,710
	<u>3,372,815</u>	<u>405,840</u>	<u>(380,185)</u>	<u>3,398,470</u>	<u>676,278</u>
Total governmental activities	\$ 3,372,815	\$ 405,840	\$ (380,185)	\$ 3,398,470	\$ 676,278
Business-type Activities					
General obligation debt:					
2000 Unlimited Tax Water Bonds	\$ 1,195,000	\$ -	\$ (75,000)	\$ 1,120,000	\$ 80,000
2003 State of Michigan Revolving Fund Loan	10,286,378	4,088,508	-	14,374,886	-
	<u>11,481,378</u>	<u>4,088,508</u>	<u>(75,000)</u>	<u>15,494,886</u>	<u>80,000</u>
Total business-type activities	\$ 11,481,378	\$ 4,088,508	\$ (75,000)	\$ 15,494,886	\$ 80,000

City of South Lyon, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt (Continued)

Other information concerning long-term debt obligations is as follows:

	Original Principal	Outstanding Debt June 30, 2005	Interest Rate	Final Payment Date	Maturity Payment Ranges
Governmental Activities					
General obligation bonds:					
1996 Transportation Bonds	\$ 350,000	\$ 50,000	5.25%	03/01/2006	\$50,000
1996 Building Authority Bonds	2,650,000	1,310,000	4.90%-5.00%	05/01/2011	\$190,000-\$250,000
1999 Building Authority Bonds	1,370,000	1,070,000	4.70%-5.20%	05/01/2019	\$55,000-\$100,000
2005 Building Authority Bonds	380,000	380,000	3.00%-4.10%	05/01/2019	\$20,000-\$35,000
1991 Special assessment - Nine Mile construction	155,000	5,000	7.10%	10/01/2005	\$5,000
Installment purchase agreements - 2000 fire truck installment contract	500,000	282,902	3.33%	06/01/2010	\$50,710-\$62,771
Total governmental activities - Excluding compensated absences	<u>\$ 5,405,000</u>	3,097,902			
Compensated absences		300,568			
Total governmental activities		<u>\$ 3,398,470</u>			
Business-type Activities					
General obligation debt:					
2000 Unlimited Tax Water Bonds	\$ 1,400,000	\$ 1,120,000	4.45% - 5.20%	09/01/2015	\$80,000-\$130,000
2003 State of Michigan Revolving Fund Loan	14,374,886	14,374,886	2.50%	10/01/2025	\$562,496-\$899,993
Total business-type activities	<u>\$ 15,774,886</u>	<u>\$ 15,494,886</u>			

The special assessment bonds represent the financing of public improvements that benefit a specific district; this district is specially assessed, at least in part, for the cost of the improvements. At June 30, 2005, the City had \$21,359 set aside in the 1991 Special Assessment Debt Service Fund for repayment of the Nine Mile construction special assessment bonds. Under Michigan law, the City is secondarily liable for payment of these bonds.

The City has entered into an agreement with the State of Michigan to borrow up to \$17,250,000 from the State Revolving Fund in order to pay for the capital improvements to the City's wastewater treatment plant. Interest payments on the loan began in October 2003. The loan principal will be repaid over 20 years in annual installments beginning in October 2006. As of June 30, 2005, the outstanding loan balance is \$14,374,886.

City of South Lyon, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the City's long-term obligations, except compensated absences, are as follows:

Fiscal Year Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 375,710	\$ 150,035	\$ 525,745	\$ 80,000	\$ 411,817	\$ 491,817
2007	333,489	133,287	466,776	642,496	394,175	1,036,671
2008	351,418	116,836	468,254	659,995	376,088	1,036,083
2009	374,512	99,548	474,060	681,662	357,313	1,038,975
2010	392,773	81,042	473,815	699,162	337,907	1,037,069
2011	345,000	61,548	406,548	720,828	317,779	1,038,607
2012	100,000	44,673	144,673	742,495	296,841	1,039,336
2013	100,000	40,010	140,010	759,995	275,216	1,035,211
2014	110,000	35,285	145,285	786,661	252,800	1,039,461
2015	115,000	30,095	145,095	808,328	229,530	1,037,858
2016	120,000	24,535	144,535	834,161	205,358	1,039,519
2017	120,000	18,655	138,655	720,828	183,957	904,785
2018	125,000	12,775	137,775	737,494	165,520	903,014
2019	135,000	6,635	141,635	758,327	146,561	904,888
2020	-	-	-	774,994	127,186	902,180
2021	-	-	-	795,827	107,291	903,118
2022	-	-	-	816,660	86,874	903,534
2023	-	-	-	837,493	65,937	903,430
2024	-	-	-	858,327	44,479	902,806
2025	-	-	-	879,160	22,500	901,660
2026	-	-	-	899,993	-	899,993
Totals	\$ 3,097,902	\$ 854,959	\$ 3,952,861	\$ 15,494,886	\$ 4,405,129	\$ 19,900,015

Total interest incurred related to governmental activities for the year approximated \$192,000. Total interest incurred related to business-type activities for the year approximated \$282,000.

Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for workers' compensation, medical, health, life, and disability claims, and participates in the Michigan Municipal Risk Management Authority risk pool for claims relating to general law enforcement, emergency medical, public errors and omissions, and auto liabilities. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 - Risk Management (Continued)

The Michigan Municipal Risk Management Authority risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 9 - Defined Benefit Pension Plans

Plan Description

The City participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers substantially all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48197.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by resolution of the City Council and negotiation with the competitive bargaining unit representing union employees. The plan does not require a contribution from employees. The employer contribution ranges from 8.93 percent to 12.60 percent of gross compensation based on the employee's classification. Pension benefits are based on 2.25 percent of the five-year final average compensation, with a maximum of 80 percent of final average compensation for AFSCME employees and 2 percent of the five-year final average compensation for all other employees. Deferred retirement benefits vest after 10 years of service, but are not paid until the date retirement would have occurred had the member remained an employee.

City of South Lyon, Michigan

Notes to Financial Statements June 30, 2005

Note 9 - Defined Benefit Pension Plans (Continued)

Annual Pension Costs

For the year ended June 30, 2005, the City's annual pension cost amounted to \$222,228. The City's required contribution was equal to the annual pension cost as determined by the actuarial valuation. In addition, the City contributed \$38,091 on behalf of the general employees, as negotiated with the collective bargaining union. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry age normal cost actuarial funding method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent to 8.66 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded liability is being amortized as a level percentage of payroll on a closed basis.

Three-year Trend Information

	Fiscal Year Ended June 30		
	2005	2004	2003
Annual pension costs (APC)	\$ 222,228	\$ 177,336	\$ 95,006
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
	Actuarial Valuation as of December 31		
	2004	2003	2002
Actuarial value of assets	\$ 4,712,758	\$ 4,368,053	\$ 4,085,321
Actuarial accrued liability (AAL)(entry)	\$ 6,300,434	\$ 5,672,607	\$ 5,122,440
Unfunded AAL (UAAL)	\$ 1,587,676	\$ 1,304,554	\$ 1,037,119
Funded ratio	74.8%	77.0%	79.8%
Covered payroll	\$ 2,520,438	\$ 2,345,282	\$ 2,175,461
UAAL as a percentage of covered payroll	63.0%	55.6%	47.7%

City of South Lyon, Michigan

Notes to Financial Statements June 30, 2005

Note 10 - Joint Ventures

The City is a member of the Resource Recovery and Recycling Authority of Southwest Oakland County (RRRASOC) and the South Lyon Area Recreation Council (SLARC). RRRASOC is incorporated by the Cities of Farmington, Farmington Hills, Novi, South Lyon, Southfield, Walled Lake, and Wixom and the Charter Township of Lyon. SLARC is incorporated by the City of South Lyon and the Charter Townships of Lyon and Green Oak. The City appoints one member to each of the joint ventures' governing boards, which then approve the annual budgets. The joint ventures receive their operating revenue from member contributions and miscellaneous income. During the current year, the City contributed the following amounts:

Entity	Contribution
RRRASOC	\$ 15,292
SLARC	25,848

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for RRRASOC can be obtained from RRRASOC's office at 43315 Sixth Gate, Novi, Michigan 48375, and for SLARC at SLARC's office at 318 W. Lake Street, South Lyon, MI 48178.

Note 11 - Restricted Net Assets

Net assets have been restricted for the following purposes:

Restricted for	Governmental Activities	Business-type Activities
Road improvements	\$ 836,601	\$ -
Law enforcement	47,498	-
Cemetery	573,049	-
Debt service	244,949	-
Construction	380,000	-
Water and sewer replacement	-	5,230,544
State Revolving Fund loan	-	1,877,691
Total	<u>\$ 2,082,097</u>	<u>\$ 7,108,235</u>

City of South Lyon, Michigan

Notes to Financial Statements June 30, 2005

Note 12 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Building permit revenue	\$ 162,145
Related expenses:	
Direct costs	(239,899)
Estimated indirect costs	<u>(10,702)</u>
Total construction code expenses	<u>(250,601)</u>
Shortfall	(88,456)
Cumulative shortfall - July 1, 2004	<u>(340,406)</u>
Cumulative shortfall - June 30, 2005	<u><u>\$ (428,862)</u></u>

Note 13 - Capital Improvements Fund Expenditures

The expenditures of the Capital Improvements Fund for the year ended June 30, 2005 are as follows:

Professional services:	
Cemetery addition	\$ 31,920
Hagadorn sidewalk	43,139
McHattie comfort station	26,466
Volunteer park	34,613
Wells Street parking lot	<u>47,329</u>
Total professional services	\$ 183,467
Construction:	
Cemetery addition	88,037
Hagadorn Sidewalk	48,204
McHattie comfort station	39,354
Griswold Road	<u>65,980</u>
Total construction	<u>241,575</u>
Total community maintenance and development expenditures	<u><u>\$ 425,042</u></u>

Required Supplemental Information

City of South Lyon, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Revenue				
Property taxes	\$ 2,878,176	\$ 2,878,176	\$ 2,835,530	\$ (42,646)
Federal sources	-	-	9,375	9,375
State-shared revenue	876,000	876,000	878,854	2,854
Licenses and permits	100,000	100,000	122,245	22,245
Charges for services	302,000	302,000	306,341	4,341
Fines and forfeitures	28,000	28,000	40,648	12,648
Interest and other	153,000	153,000	212,314	59,314
Total revenue	4,337,176	4,337,176	4,405,307	68,131
Expenditures				
General government	1,195,100	1,195,600	1,166,757	(28,843)
Public safety	2,352,908	2,520,384	2,472,354	(48,030)
Cemetery and DPW	696,649	891,835	888,689	(3,146)
Culture and recreation	192,583	197,192	153,173	(44,019)
Total expenditures	4,437,240	4,805,011	4,680,973	(124,038)
Excess of Expenditures Over Revenue	(100,064)	(467,835)	(275,666)	192,169
Fund Balance - July 1, 2004	3,424,443	3,242,443	3,242,443	-
Fund Balance - June 30, 2005	<u>\$ 3,324,379</u>	<u>\$ 2,774,608</u>	<u>\$ 2,966,777</u>	<u>\$ 192,169</u>

City of South Lyon, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Fund Capital Improvements Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Revenue				
Property taxes	\$ 802,102	\$ 802,102	\$ 792,686	\$ (9,416)
Community development block grant	47,279	47,279	-	(47,279)
Proceeds from long-term debt	-	-	380,000	380,000
Interest and other	19,000	12,000	28,998	16,998
Total revenue	868,381	861,381	1,201,684	340,303
Expenditures				
Professional services	265,200	300,930	183,467	(117,463)
Construction expense	687,250	256,250	241,575	(14,675)
Transfers to other funds	398,000	1,362,165	775,773	(586,392)
Total expenditures	1,350,450	1,919,345	1,200,815	(718,530)
Excess of Revenue Over (Under) Expenditures	(482,069)	(1,057,964)	869	1,058,833
Fund Balance - July 1, 2004	1,865,423	1,865,423	1,865,423	-
Fund Balance - June 30, 2005	<u>\$ 1,383,354</u>	<u>\$ 807,459</u>	<u>\$ 1,866,292</u>	<u>\$ 1,058,833</u>

Other Supplemental Information

City of South Lyon, Michigan

	General Government	Public Safety		
		Police	Fire	Ambulance
Expenditures				
Salaries and wages	\$ 445,339	\$ 1,238,480	\$ 31,515	\$ -
Salaries and wages - Mechanic	-	-	-	-
Reimbursement of mechanic wages	-	-	-	-
Fringe benefits:				
Payroll taxes and insurance	168,420	425,900	25,761	-
Uniforms	-	16,200	12,277	-
Education and training	2,453	4,431	7,131	-
Total fringe benefits	170,873	446,531	45,169	-
Operating supplies	25,727	21,887	22,757	-
Printing and publishing	10,012	-	-	-
Professional services	18,006	9,574	-	-
Contractual services	100,945	-	-	-
Audit	36,809	-	-	-
Planning consultant	6,050	-	-	-
Elections	8,652	-	-	-
Legal fees	41,010	19,481	-	-
Dues and memberships	13,993	305	2,760	-
Telephone	5,928	13,782	10,048	-
Conference and travel	8,639	268	-	-
Insurance and bonds	37,304	18,626	16,946	55
Utilities	17,235	14,094	8,369	2,305
Maintenance:				
Building	12,220	3,260	25,672	-
General	-	6,682	4,224	-
Vehicle	2,621	19,907	17,493	-
Radio	-	1,075	6,193	-
Gas and oil	-	19,763	3,648	2,286
Sundry	46,544	137	-	-
Community relations	119,515	-	-	-
Capital improvements	-	82,797	-	-
Land beautification	4,672	-	-	-
Equipment purchases	19,371	3,587	10,227	-
Land improvements	-	-	-	-
Recycling charges	15,292	-	-	-
Debt service	-	-	91,348	-
Ammunition	-	1,736	-	-
South Lyon Firefighters Association	-	-	171,388	-
Radio dispatching	-	42,621	10,308	-
Equipment rental	-	-	25,050	-
Traffic and street lights	-	-	-	-
Total expenditures	1,166,757	1,964,593	503,115	4,646
Transfer to Other Funds	-	-	-	-
Total expenditures and transfers to other funds - Budget basis	<u>\$ 1,166,757</u>	<u>\$ 1,964,593</u>	<u>\$ 503,115</u>	<u>\$ 4,646</u>

Other Supplemental Information
Schedule of Expenditures
General Fund
June 30, 2005

Community Maintenance and Development		Culture and Recreation			Year Ended June 30	
Cemetery	Public Works	Parks and Recreation	Senior Transportation	Historical Depot	2005	2004
\$ 20,528	\$ 165,910	\$ 24,211	\$ 31,682	\$ -	\$ 1,957,665	\$ 1,866,542
-	29,967	-	-	-	29,967	30,694
-	(29,967)	-	-	-	(29,967)	(30,694)
15,256	142,224	7,577	4,888	-	790,026	662,326
-	3,589	-	-	-	32,066	33,255
-	677	-	-	-	14,692	21,989
15,256	146,490	7,577	4,888	-	836,784	717,570
4,104	45,673	14,611	-	-	134,759	113,852
-	-	-	-	-	10,012	11,575
29,614	9,474	-	-	-	66,668	85,478
-	-	-	-	-	100,945	151,778
-	-	-	-	-	36,809	24,088
-	-	-	-	-	6,050	9,360
-	-	-	-	-	8,652	9,565
-	-	-	-	-	60,491	119,342
-	-	-	-	-	17,058	14,960
-	2,746	-	-	-	32,504	29,361
-	237	-	-	-	9,144	5,634
452	19,965	662	1,185	726	95,921	88,216
789	23,197	657	8,914	8,429	83,989	71,940
-	29,897	-	-	5,136	76,185	49,629
937	-	4,599	-	3,298	19,740	57,411
-	114,935	-	2,044	-	157,000	138,877
-	-	-	-	-	7,268	9,949
-	31,347	-	2,477	-	59,521	50,951
-	-	-	354	2,595	49,630	8,267
-	-	-	-	4,806	124,321	126,882
-	-	-	-	8,006	90,803	60,538
-	-	-	-	-	4,672	13,495
159	13,220	14,723	-	-	61,287	53,549
-	50,877	-	-	1,593	52,470	18,838
-	-	-	-	-	15,292	14,924
-	-	-	-	-	91,348	89,951
-	-	-	-	-	1,736	2,670
-	-	-	-	-	171,388	156,911
-	-	-	-	-	52,929	44,938
-	22,083	-	-	-	47,133	45,126
-	89,067	-	-	-	89,067	114,119
71,839	765,118	67,040	51,544	34,589	4,629,241	4,376,286
-	51,732	-	-	-	51,732	4,990
\$ 71,839	\$ 816,850	\$ 67,040	\$ 51,544	\$ 34,589	\$ 4,680,973	\$ 4,381,276

City of South Lyon, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds Special Revenue Funds and Debt Service Funds (Combined) Year Ended June 30, 2005

	Special Revenue Funds	Debt Service Funds	Total Nonmajor Governmental Funds
Assets			
Cash and cash equivalents	\$ 1,689,867	\$ 63,873	\$ 1,753,740
Due from other governmental units	103,223	-	103,223
Due from other funds	3,277	-	3,277
Other current assets	7,221	-	7,221
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u><u>\$ 1,803,588</u></u>	<u><u>\$ 63,873</u></u>	<u><u>\$ 1,867,461</u></u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 5,372	\$ -	\$ 5,372
Accrued and other liabilities	6,759	-	6,759
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	12,131	-	12,131
Fund Balances			
Reserved for future cemetery expenditures	573,049	-	573,049
Unreserved:			
Designated	19,162	7,944	27,106
Undesignated	1,199,246	55,929	1,255,175
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>1,791,457</u>	<u>63,873</u>	<u>1,855,330</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u><u>\$ 1,803,588</u></u>	<u><u>\$ 63,873</u></u>	<u><u>\$ 1,867,461</u></u>

City of South Lyon, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Special Revenue Funds and Debt Service Funds (Combined) Year Ended June 30, 2005

	Special Revenue Funds	Debt Service Funds	Total Nonmajor Governmental Funds
Revenues			
Property taxes	\$ 41,221	\$ -	\$ 41,221
State sources	490,124	-	490,124
Charges for services	54,000	-	54,000
Interest and other	84,555	668	85,223
Total revenues	669,900	668	670,568
Expenditures			
Community maintenance and development:			
Professional services:			
Major Street Paving Program - McHattie	7,745	-	7,745
Local Street Paving Program - Detroit, Lenox, Washington, Hagadorn, and Second	104,384	-	104,384
Other	6,261	-	6,261
Construction:			
Major Street Paving Program - McHattie	64,399	-	64,399
Local Street Paving Program - Detroit, Lenox, Washington, Hagadorn, and Second	477,196	-	477,196
Street routine maintenance	269,509	-	269,509
Traffic services	10,405	-	10,405
Snow plowing	98,056	-	98,056
Drainage and backsloping	2,981	-	2,981
Total community maintenance and development	1,040,936	-	1,040,936
Capital outlay	54,018	-	54,018
Debt principal payments	-	65,000	65,000
Interest and fiscal charges	-	63,215	63,215
Total expenditures	1,094,954	128,215	1,223,169
Excess of Expenditures Over Revenues	(425,054)	(127,547)	(552,601)
Other Financing Sources (Uses)			
Operating transfers in	827,505	139,143	966,648
Operating transfers out	(50,265)	(32,728)	(82,993)
Total other financing sources (uses)	777,240	106,415	883,655
Excess of Revenues and Other Financing Sources Over (Under) Revenues and Other Uses	352,186	(21,132)	331,054
Fund Balances - July 1, 2004	1,439,271	85,005	1,524,276
Fund Balances - June 30, 2005	\$ 1,791,457	\$ 63,873	\$ 1,855,330

City of South Lyon, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Special Revenue Funds Year Ended June 30, 2005

	Major Road	Local Road	Community Development Block Grant	Equipment Replacement	Drug Forfeiture	Land Acquisition	Cemetery Perpetual Care	Total Nonmajor Special Revenue Funds
Assets								
Cash and cash equivalents	\$ 573,716	\$ 161,295	\$ -	\$ 168,228	\$ 47,498	\$ 166,081	\$ 573,049	\$ 1,689,867
Due from other governmental units	80,379	22,844	-	-	-	-	-	103,223
Due from other funds	2,345	932	-	-	-	-	-	3,277
Other current assets	3,813	3,408	-	-	-	-	-	7,221
Total assets	<u>\$ 660,253</u>	<u>\$ 188,479</u>	<u>\$ -</u>	<u>\$ 168,228</u>	<u>\$ 47,498</u>	<u>\$ 166,081</u>	<u>\$ 573,049</u>	<u>\$ 1,803,588</u>
Liabilities and Fund Balances								
Liabilities								
Accounts payable	\$ 917	\$ 4,455	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,372
Accrued and other liabilities	3,659	3,100	-	-	-	-	-	6,759
Total liabilities	4,576	7,555	-	-	-	-	-	12,131
Fund Balances								
Reserved for future cemetery expenditures	-	-	-	-	-	-	573,049	573,049
Unreserved:								
Designated for subsequent year's expenditures	-	12,862	-	6,300	-	-	-	19,162
Undesignated	655,677	168,062	-	161,928	47,498	166,081	-	1,199,246
Total fund balances	655,677	180,924	-	168,228	47,498	166,081	573,049	1,791,457
Total liabilities and fund balances	<u>\$ 660,253</u>	<u>\$ 188,479</u>	<u>\$ -</u>	<u>\$ 168,228</u>	<u>\$ 47,498</u>	<u>\$ 166,081</u>	<u>\$ 573,049</u>	<u>\$ 1,803,588</u>

City of South Lyon, Michigan

	Major Road	Local Road	Community Development Block Grant	Equipment Replacement	Drug Forfeiture
Revenues					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	348,904	141,220	-	-	-
Charges for services	-	-	-	54,000	-
Metro Authority	23,946	-	-	-	-
Sale of graves	-	-	-	-	-
Interest	7,630	1,680	-	2,285	583
Sundry	571	1,009	-	4,320	911
Total revenues	381,051	143,909	-	60,605	1,494
Expenditures					
Community maintenance and development:					
Professional services:					
Major Street Paving Program - McHattie	7,745	-	-	-	-
Local Street Paving Program - Detroit, Lenox, Washington, Hagadorn, and Second	-	104,384	-	-	-
Other	2,921	2,921	-	-	419
Construction:					
Major Street Paving Program - McHattie	64,399	-	-	-	-
Local Street Paving Program - Detroit, Lenox, Washington, Hagadorn, and Second	-	477,196	-	-	-
Street routine maintenance	153,929	115,580	-	-	-
Traffic services	8,143	2,262	-	-	-
Snow plowing	56,686	41,370	-	-	-
Drainage and backslowing	786	2,195	-	-	-
Total community maintenance and development	294,609	745,908	-	-	419
Capital outlay	-	-	-	51,300	2,718
Total expenditures	294,609	745,908	-	51,300	3,137
Excess of Revenues Over (Under) Expenditures	86,442	(601,999)	-	9,305	(1,643)
Other Financing Sources (Uses)					
Operating transfers in	121,732	705,773	-	-	-
Operating transfers out	(50,265)	-	-	-	-
Total other financing sources (uses)	71,467	705,773	-	-	-
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	157,909	103,774	-	9,305	(1,643)
Fund Balances - July 1, 2004	497,768	77,150	-	158,923	49,141
Fund Balances - June 30, 2005	<u>\$ 655,677</u>	<u>\$ 180,924</u>	<u>\$ -</u>	<u>\$ 168,228</u>	<u>\$ 47,498</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Special Revenue Funds
Year Ended June 30, 2005

Land Acquisition	Cemetery Perpetual Care	Total Nonmajor Special Revenue Funds
\$ 41,221	\$ -	\$ 41,221
-	-	490,124
-	-	54,000
-	-	23,946
-	39,600	39,600
2,020	-	14,198
-	-	6,811
43,241	39,600	669,900
-	-	7,745
-	-	104,384
-	-	6,261
-	-	64,399
-	-	477,196
-	-	269,509
-	-	10,405
-	-	98,056
-	-	2,981
-	-	1,040,936
-	-	54,018
-	-	1,094,954
43,241	39,600	(425,054)
-	-	827,505
-	-	(50,265)
-	-	777,240
43,241	39,600	352,186
122,840	533,449	1,439,271
\$ 166,081	\$ 573,049	\$ 1,791,457

City of South Lyon, Michigan

Other Supplemental Information Schedule of Expenditures by Activity Major and Local Road Funds Year Ended June 30, 2005

Major Road Fund

	Professional Services	Street Construction	Street Routine Maintenance	Traffic Services	Snow Plowing	Drainage and Backsloping	Total
Wages and salaries	\$ -	\$ -	\$ 84,061	\$ 1,456	\$ 30,301	\$ 430	\$ 116,248
Fringe benefits	-	-	35,660	578	9,426	223	45,887
Operating expense	-	-	120	689	16,959	133	17,901
Professional services - McHattie	7,745	-	-	-	-	-	7,745
Professional services - Other	2,921	-	-	-	-	-	2,921
Traffic signals	-	-	-	5,420	-	-	5,420
Repairs and maintenance	-	-	14,886	-	-	-	14,886
Equipment rental	-	-	19,152	-	-	-	19,152
Insurance	-	-	50	-	-	-	50
Construction - McHattie	-	64,399	-	-	-	-	64,399
Total expenditures	<u>\$ 10,666</u>	<u>\$ 64,399</u>	<u>\$ 153,929</u>	<u>\$ 8,143</u>	<u>\$ 56,686</u>	<u>\$ 786</u>	<u>\$ 294,609</u>

Local Road Fund

Wages and salaries	\$ -	\$ -	\$ 72,322	\$ 1,367	\$ 24,560	\$ 785	\$ 99,034
Fringe benefits	-	-	26,764	529	7,678	317	35,288
Operating expense	-	-	80	366	9,132	1,093	10,671
Professional services - Detroit, Lenox, Washington, Hagadorn, and Second	104,384	-	-	-	-	-	104,384
Professional services - Other	2,921	-	-	-	-	-	2,921
Repairs and maintenance	-	-	1,263	-	-	-	1,263
Equipment rental	-	-	15,101	-	-	-	15,101
Insurance	-	-	50	-	-	-	50
Construction - Detroit, Lenox, Washington, Hagadorn, and Second	-	477,196	-	-	-	-	477,196
Total expenditures	<u>\$ 107,305</u>	<u>\$ 477,196</u>	<u>\$ 115,580</u>	<u>\$ 2,262</u>	<u>\$ 41,370</u>	<u>\$ 2,195</u>	<u>\$ 745,908</u>

City of South Lyon, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Debt Service Funds June 30, 2005

	1991 Special Assessment	1996 Advance Refunding Bonds	1996 Transportation Bonds	2000 General Obligation Water Bonds	Total Nonmajor Debt Service Funds
Assets - Cash and cash equivalents	<u>\$ 21,359</u>	<u>\$ -</u>	<u>\$ 1,944</u>	<u>\$ 40,570</u>	<u>\$ 63,873</u>
Fund Balances - Unreserved					
Designated for subsequent year's expenditures	\$ 5,800	\$ -	\$ 1,944	\$ 200	\$ 7,944
Undesignated	<u>15,559</u>	<u>-</u>	<u>-</u>	<u>40,370</u>	<u>55,929</u>
Total fund balances	<u>\$ 21,359</u>	<u>\$ -</u>	<u>\$ 1,944</u>	<u>\$ 40,570</u>	<u>\$ 63,873</u>

City of South Lyon, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Debt Service Funds Year Ended June 30, 2005

	1991 Special Assessment	1996 Advance Refunding Bonds	1996 Transportation Bonds	2000 General Obligation Water Bonds	Total Nonmajor Debt Service Funds
Revenues - Interest and other	\$ 266	\$ 146	\$ 6	\$ 250	\$ 668
Expenditures					
Debt principal payments	10,000	10,000	45,000	-	65,000
Interest and fiscal charges	1,210	590	5,265	56,150	63,215
Total expenditures	11,210	10,590	50,265	56,150	128,215
Excess of Expenditures Over Revenues	(10,944)	(10,444)	(50,259)	(55,900)	(127,547)
Other Financing Sources (Uses)					
Operating transfers in	-	-	50,265	88,878	139,143
Operating transfers out	-	(32,728)	-	-	(32,728)
Total other financing sources (uses)	-	(32,728)	50,265	88,878	106,415
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(10,944)	(43,172)	6	32,978	(21,132)
Fund Balances - July 1, 2004	32,303	43,172	1,938	7,592	85,005
Fund Balances - June 30, 2005	<u>\$ 21,359</u>	<u>\$ -</u>	<u>\$ 1,944</u>	<u>\$ 40,570</u>	<u>\$ 63,873</u>

City of South Lyon, Michigan

	Major Debt Service Fund		
	1996 Building Authority	1999 Building Authority	Total Building Authority Fund
Assets			
Cash and cash equivalents	\$ 143,474	\$ 37,602	\$ 181,076
Due from other funds	-	-	-
Due from other governmental units	760,455	-	760,455
Total assets	<u>\$ 903,929</u>	<u>\$ 37,602</u>	<u>\$ 941,531</u>
Liabilities - Deferred revenue	\$ 760,455	\$ -	\$ 760,455
Fund Balances - Unreserved			
Designated for subsequent year's expenditures	-	-	-
Undesignated	143,474	37,602	181,076
Total fund balances	143,474	37,602	181,076
Total liabilities and fund balances	<u>\$ 903,929</u>	<u>\$ 37,602</u>	<u>\$ 941,531</u>

Other Supplemental Information
Summary of Debt Service Activity
Assets, Liabilities, and Fund Balances
Year Ended June 30, 2005

Nonmajor Debt Service Funds				Enterprise Fund Debt
1991 Special Assessment	1996 Advance Refunding Bonds	1996 Transportation Bonds	2000 General Obligation Water Bonds	2003 State Revolving Fund Loan
\$ 21,359	\$ -	\$ 1,944	\$ 40,570	\$ 1,320,085
-	-	-	-	595,456
-	-	-	-	-
\$ 21,359	\$ -	\$ 1,944	\$ 40,570	\$ 1,915,541
\$ -	\$ -	\$ -	\$ -	\$ -
5,800	-	1,944	200	-
15,559	-	-	40,370	1,915,541
21,359	-	1,944	40,570	1,915,541
\$ 21,359	\$ -	\$ 1,944	\$ 40,570	\$ 1,915,541

City of South Lyon, Michigan

	Major Debt Service Fund		
	1996 Building Authority	1999 Building Authority	Total Building Authority Fund
Revenues			
Property taxes	\$ 105,189	\$ 113,714	\$ 218,903
Local sources	147,607	-	147,607
Interest	2,713	801	3,514
Total revenue	255,509	114,515	370,024
Expenditures			
Debt principal payments	180,000	55,000	235,000
Interest and fiscal charges	74,275	56,773	131,048
Total expenditures	254,275	111,773	366,048
Excess of Revenue Over (Under) Expenditures	1,234	2,742	3,976
Other Financing Sources (Uses)			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	1,234	2,742	3,976
Fund Balances - July 1, 2004	142,240	34,860	177,100
Fund Balances - June 30, 2005	\$ 143,474	\$ 37,602	\$ 181,076

**Other Supplemental Information
Summary of Debt Service Activity
Revenue, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2005**

Nonmajor Debt Service Funds				Enterprise Fund Debt
1991 Special Assessment	1996 Advance Refunding Bonds	1996 Transportation Bonds	2000 General Obligation Water Bonds	2003 State Revolving Fund Loan
\$ -	\$ -	\$ -	\$ -	\$ 861,384
-	-	-	-	-
<u>266</u>	<u>146</u>	<u>6</u>	<u>250</u>	<u>30,200</u>
266	146	6	250	891,584
10,000	10,000	45,000	-	-
<u>1,210</u>	<u>590</u>	<u>5,265</u>	<u>56,150</u>	<u>281,502</u>
<u>11,210</u>	<u>10,590</u>	<u>50,265</u>	<u>56,150</u>	<u>281,502</u>
(10,944)	(10,444)	(50,259)	(55,900)	610,082
-	-	50,265	88,878	-
<u>-</u>	<u>(32,728)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>(32,728)</u>	<u>50,265</u>	<u>88,878</u>	<u>-</u>
(10,944)	(43,172)	6	32,978	610,082
<u>32,303</u>	<u>43,172</u>	<u>1,938</u>	<u>7,592</u>	<u>1,305,459</u>
<u>\$ 21,359</u>	<u>\$ -</u>	<u>\$ 1,944</u>	<u>\$ 40,570</u>	<u>\$ 1,915,541</u>

City of South Lyon, Michigan

	Activity		
	Water Distribution System	Water Repair	Wastewater System
Personnel services:			
Salaries and wages	\$ 135,657	\$ 40,157	\$ 316,165
Fringe benefits	98,856	13,179	153,441
Total personnel services	234,513	53,336	469,606
Equipment repairs and maintenance:			
Equipment maintenance	14,804	10,061	7,987
Building maintenance	14,876	-	122,879
Total equipment repairs and maintenance	29,680	10,061	130,866
Public utilities:			
Gas	1,781	-	38,137
Electric	90,596	-	123,560
Telephone	4,252	-	1,977
Total public utilities	96,629	-	163,674
Refuse collection	-	-	-
Depreciation	312,563	-	447,734
Amortization	-	-	1,038
Total depreciation and amortization	312,563	-	448,772
Other services and charges:			
Professional services	14,334	-	39,047
Municipal service charge	21,000	-	21,000
Total other services and charges	35,334	-	60,047
Supplies:			
Office	598	-	633
Operating	39,150	1,590	95,225
Computer	691	-	691
Total supplies	40,439	1,590	96,549
Insurance	15,280	-	17,666
Other	750	-	-
Total operating expenses	<u>\$ 765,188</u>	<u>\$ 64,987</u>	<u>\$ 1,387,180</u>

Other Supplemental Information
Enterprise Fund - Water and Sewer Fund
Schedule of Operating Expenses
Year Ended June 30, 2005

Sanitary Sewer Repair	Solid Waste Collection	Sewer Construction	Year Ended June 30	
			2005	2004
\$ 23,804	\$ -	\$ -	\$ 515,783	\$ 496,442
8,702	-	-	274,178	253,540
32,506	-	-	789,961	749,982
11,329	-	-	44,181	51,600
-	-	-	137,755	223,869
11,329	-	-	181,936	275,469
-	-	-	39,918	28,649
-	-	-	214,156	175,390
-	-	-	6,229	6,024
-	-	-	260,303	210,063
-	437,539	-	437,539	416,564
-	-	3,966	764,263	732,395
-	-	-	1,038	1,038
-	-	3,966	765,301	733,433
12,722	-	18,350	84,453	183,935
-	-	-	42,000	42,000
12,722	-	18,350	126,453	225,935
-	-	-	1,231	2,527
7,642	-	-	143,607	136,814
-	-	-	1,382	1,634
7,642	-	-	146,220	140,975
-	-	-	32,946	40,122
-	-	-	750	8,627
\$ 64,199	\$ 437,539	\$ 22,316	\$ 2,741,409	\$ 2,801,170

Statistical Information

City of South Lyon, Michigan

Schedule of Taxes Levied, Collected, and Returned Delinquent - 2004 Tax Roll June 30, 2005

	<u>Final Levy</u>	<u>Taxes Collected</u>	<u>Returned Delinquent</u>	<u>Percent Collected</u>
Taxable Value: \$348,698,845				
City of South Lyon	\$ 5,167,235	\$ 4,966,376	\$ 200,859	96.11
Specials	59,628	59,162	466	99.22
Downtown Development Authority	36,539	29,670	6,869	81.20
Administration fee	96,629	91,959	4,670	95.17
Oakland Community College	550,853	532,227	18,626	96.62
South Lyon Community Schools	4,226,844	4,000,654	226,190	94.65
State education	2,092,192	2,019,593	72,599	96.53
Oakland County	<u>2,791,276</u>	<u>2,643,673</u>	<u>147,603</u>	94.71
Total	<u>\$ 15,021,196</u>	<u>\$ 14,343,314</u>	<u>\$ 677,882</u>	<u>95.49</u>

City of South Lyon, Michigan

Continuing Disclosure Undertaking Fiscal Year July 1, 2004 - June 30, 2005

A. Taxable Value - Fiscal Year 2005-2006: **\$372,399,900**

B. Taxable Value by Use and Class - Fiscal Year 2005-2006

Use	Taxable Value	Percent of Taxable Value	SEV	Percent of SEV
Commercial	\$ 35,773,360	9.61	\$ 49,770,960	11.22
Industrial	6,225,950	1.67	8,768,680	1.98
Residential	315,506,160	84.72	370,216,310	83.45
Personal	14,894,430	4.00	14,894,430	3.35
Total	<u><u>\$ 372,399,900</u></u>	<u><u>100.00</u></u>	<u><u>\$ 443,650,380</u></u>	<u><u>100.00</u></u>
Class				
Real property	\$ 357,505,470	96.00	\$ 428,755,950	96.64
Personal property	14,894,430	4.00	14,894,430	3.36
Total	<u><u>\$ 372,399,900</u></u>	<u><u>100.00</u></u>	<u><u>\$ 443,650,380</u></u>	<u><u>100.00</u></u>

F. & G. Property Tax Rates by Governmental Unit - Fiscal Year 2005-2006

City of South Lyon	Rate	City of South Lyon	Rate
General operation	8.5470	Huron Clinton Authority	.2415
Capital improvements	3.6100	Oakland County	4.1900
Building Authority	.2860	Intermediate schools	3.3690
Building Authority - Land	.2970	Oakland Community College	1.5844
Land acquisition	.1200		
Debt service - Sewer G.O.	.8900		
		South Lyon Community Schools	18.0000
		State education	6.0000
		South Lyon school debt	8.5000
Total City of South Lyon	13.7500	Total by governmental units	<u><u>56.9933</u></u>
District library	1.0338		
Library debt	0.3246		

July 1, 2005 tax levy: \$5,121,101

City of South Lyon, Michigan

Continuing Disclosure Undertaking (Continued) Fiscal Year July 1, 2004 - June 30, 2005

H. Property Tax Collections - Fiscal Year 2004-2005 (as of 6-30-05) - 95.48% for Fiscal Year Ending 2005: In Process of Collection

I. 10 Largest Taxpayers - Fiscal Year 2005-2006

Taxpayer	Principal Product or Service	Taxable Value
Colonial Hunt Club (Phase V)	Co-op	\$ 20,057,220
Colonial Acres Development (Phases I-IV)	Co-op	10,983,940
Brookwood Farm, LLC	Rental properties	6,816,780
Quanex Corporation	Tubular mill	3,842,170
Brookdale Assoc. LTD Partners	Rental properties	3,405,990
Detroit Edison	Utility	3,166,740
J&R Management	Rental properties	2,478,480
Wolverine Property Investment	Mobile homes park	2,234,440
Hadley & Associates	Commercial	1,794,270
Charleston Park Singh	Subdivision	1,634,900
Total		<u><u>\$ 56,414,930</u></u>

J. Distributable Aid - State-shared Revenue - Fiscal Year 2004-05: \$854,623

K. Legal Debt Margin

The following table reflects the amount of additional debt the City may legally incur as of June 30, 2005:

Debt limit (I)		\$ 44,365,038
Debt outstanding	\$ 18,592,788	
Less exempt debt	<u>55,000</u>	<u>18,537,788</u>
Legal debt margin		<u><u>\$ 25,827,250</u></u>

(I) 10 percent of the City's \$443,650,380 SEV for the fiscal year ended June 30, 2005

Source: Municipal Advisory Council of Michigan and the City of South Lyon

City of South Lyon, Michigan

Continuing Disclosure Undertaking (Continued) Fiscal Year July 1, 2004 - June 30, 2005

Debt Statement

The following table reflects a breakdown of the City's direct and overlapping debt as of June 30, 2005.

To the extent necessary, the City may levy taxes on all taxable property within its boundaries without limitation as to rate or amount to pay the principal of and interest due on the bonds in the following table, which are designated as "UT." However, the City's ability to levy tax to pay the debt service on the bonds, which are designated as "LT," is subject to applicable charter, statutory, and constitutional limitations.

City Direct Debt	Gross	Self-supporting	Net
General obligation bonds:			
Dated September 1, 2000 (UT)	\$ 1,120,000	\$ -	\$ 1,120,000
Building Authority bonds:			
Dated June 9, 2005 (LT)	380,000	-	380,000
Dated July 1, 1999 (LT)	1,070,000	-	1,070,000
Dated September 1, 1996 (LT)	1,310,000	760,455 (1)	549,545
Subtotal	2,760,000	760,455	1,999,545
Special assessment bonds -			
Dated June 1, 1991 (LT)	5,000	5,000	-
Michigan Transportation Fund bonds -			
Dated July 1, 1996 (LT)	50,000	50,000	-
State Revolving Fund Loan -			
Dated March 27, 2003 (UT)	14,374,886	-	14,374,886
Installment purchase obligations:			
Dated June 7, 2000 (LT)	282,902	-	282,902
Total	<u>\$ 18,592,788</u>	<u>\$ 815,455</u>	<u>\$ 17,777,333</u>
Per capita net City direct debt (2)			\$ 1,771.36
Percent of net direct debt to SEV (3)			4.01%

City of South Lyon, Michigan

Continuing Disclosure Undertaking (Continued) Fiscal Year July 1, 2004 - June 30, 2005

Overlapping Debt (4)	Gross	City's Share as Percent of Gross	Net
South Lyon Schools	\$ 219,810,000	22.17	\$ 48,731,877
Oakland County	97,029,063	0.62	601,580
Oakland Intermediate School District	10,220,000	0.62	63,364
Oakland Community College	11,175,000	0.63	70,403
Salem-South Lyon District Library	1,800,000	54.29	977,220
Totals	<u><u>\$ 340,034,063</u></u>		<u><u>\$ 50,444,444</u></u>

Per capita net overlapping debt (2) \$ 5,026.35
 Percent of net overlapping debt to SEV (3) 11.37%

Per capita net direct and overlapping debt (2) \$ 6,797.71
 Percent of net direct and overlapping debt to SEV (3) 15.38%

(1) Represents 58.05 percent of the 1996 Building Authority Bonds, which is being paid by the South Lyon Schools

(2) Based on the City's 2000 Census population of 10,036

(3) Based on \$443,650,380, which is the City's SEV for the fiscal year ended June 30, 2005

(4) Overlapping debt is the portion of another taxing unit's debt for which property taxpayers of the City are liable in addition to debt issued by the City.

Source: Municipal Advisory Council of Michigan and the City of South Lyon

City of South Lyon

**Federal Awards
Supplemental Information
June 30, 2005**

City of South Lyon

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of South Lyon

We have audited the basic financial statements of the City of South Lyon for the year ended June 30, 2005 and have issued our report thereon dated August 19, 2005. Those basic financial statements are the responsibility of the management of the City of South Lyon. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the City of South Lyon taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

August 19, 2005

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Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council
City of South Lyon

We have audited the financial statements of the City of South Lyon as of and for the year ended June 30, 2005 and have issued our report thereon dated August 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of South Lyon's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of South Lyon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Honorable Mayor and
Members of the City Council
City of South Lyon

This report is intended solely for the information and use of the audit committee, board/council, and management and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

August 19, 2005

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council
City of South Lyon

Compliance

We have audited the compliance of the City of South Lyon with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. The major federal programs of the City of South Lyon are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of South Lyon's management. Our responsibility is to express an opinion on City of South Lyon's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of South Lyon's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of South Lyon's compliance with those requirements.

In our opinion, the City of South Lyon complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

To the Honorable Mayor and
Members of the City Council
City of South Lyon

Internal Control Over Compliance

The management of the City of South Lyon is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of South Lyon's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

August 19, 2005

City of South Lyon

Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Environmental Protection Agency - Passed through Michigan Department of Environmental Quality - Capitalization Grants for Drinking Water State Revolving Funds - Project number 5206-01	66.468	5206-01	\$ 17,250,000	\$ 855,356
Passed through Oakland County, Michigan - Emerald Ash Borer Tree Planting Grant	10.664	N/A	9,375	9,375
Total federal awards				<u><u>\$ 864,731</u></u>

City of South Lyon

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Revenue from federal sources - As reported on financial statements (includes all funds)	\$ 9,375
Federal revenue not reported as such in the financial statements - Capitalization Grants proceeds for State Revolving Fund *	<u>855,356</u>
Federal expenditures per the schedule of expenditures of federal awards	<u>\$ 864,731</u>

* Amount is included in long-term debt in the basic financial statements

City of South Lyon

Note to Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Note - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of South Lyon and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

City of South Lyon

Schedule of Findings and Questioned Costs Year Ended June 30, 2005

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major program:

- Material weakness identified? _____ Yes X No
- Reportable condition identified that are not considered to be material weakness? _____ Yes X None reported

Type of auditor's report issued on compliance for major program: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major program:

CFDA Number(s)	Name of Federal Program or Cluster
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66.468	Capitalization Grants for State Revolving Funds
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Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ Yes X No

City of South Lyon

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2005

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None

August 19, 2005

To the Honorable Mayor and
Members of the City Council
City of South Lyon
335 South Warren
South Lyon, MI 48178

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements of the City of South Lyon for the year ended June 30, 2005. As part of our audit, and in addition to our audit report, we have the following comments and recommendations for your consideration.

FINANCIAL RESULTS/PLANS

The City's General Fund fund balance decreased in the current year from approximately \$3,242,000 to \$2,967,000. This decrease was expected and prepared for as demonstrated by the approximately \$100,000 and \$468,000 expected appropriations of fund balance as reflected in the City's original and final amended budgets. The City of South Lyon is in a position to withstand the very difficult financial climate that exists today because of the City's diligence and foresight over many years. As we know you are well aware, the 2005-2006 fiscal year may be even more challenging, and we encourage the City to continue to closely monitor this year's budget.

INTERNAL CONTROL

As a result of the City receiving in excess of \$500,000 of federal monies for the Waste Water Treatment Plant construction, we were required to perform an "A-133 single audit", which is a more comprehensive compliance audit related to the federal funds received through the State Revolving Fund financing program. Testing performed in conjunction with this A-133 audit revealed no findings that would require disclosure in the supplemental financial statement prepared for the A-133 single audit. Because of the numerous and complex rules and regulations which the City must comply with as the recipient of federal funds, it is unusual that this comprehensive compliance audit does not result in some findings. As a result, the City should feel a sense of accomplishment on maintaining proper internal controls related to the transactions associated with the Revolving Fund program.

August 19, 2005

MUNICIPAL FINANCE ACT REVISIONS – REMINDER

The Municipal Finance Act was amended during 2001. Beginning after March 2002, communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day “exemption from prior approval” process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City’s year end (which means for South Lyon that filing is due December 31, 2005) and is good for one year thereafter.

REVENUE SHARING

State shared revenue accounts for approximately 20% of the City’s total General Fund revenue. Because of slower than anticipated growth in the State’s sales tax collections (the sole source of revenue sharing payments to local units of government) and the State’s budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State’s budget, revenue sharing payments for the last several years have been lower than anticipated.

2005

As you are probably aware, the Governor’s budget for the State’s 2005 fiscal year contains a provision to not pay counties statutory revenue sharing (the counties only source of revenue sharing). Instead, the counties will change their property tax levy date for their operating millage from December to July (beginning in 2005). A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue sharing payments to cities, villages and townships for the State’s 2005 fiscal year at the prior year levels. This plan was approved by the Michigan legislature and signed by the Governor.

In February 2005, the Governor did unveil an Executive Order to remedy a \$375 million shortfall for the State’s 2005 budget and it appears to propose no further cuts to revenue sharing. The Executive Order was rejected by the Michigan Legislature and negotiations continue. We will keep the City updated on further developments.

2006

The Governor also introduced her 2006 budget with a \$773 million shortfall in February 2005. At this time, the budgeted amount for revenue sharing in 2006 is approximately the same as the 2005 funding level. The details on how the monies will be distributed on an individual community basis are yet to be confirmed.

STATE SHARED REVENUE (CONTINUED)

A history of the City's state shared revenue over the past several years is as follows:

Year	Constitutional	Statutory	Total
2001	\$622,591	\$365,163	\$987,754
2002	\$660,014	\$417,575	\$1,077,589
2003	\$661,877	\$287,072	\$948,949
2004	\$660,334	\$223,071	\$883,405
2005	\$670,410	\$184,213	\$854,623
2006 (est.)	\$696,640	\$163,742	\$860,382

We will continue to update the City as developments occur.

PROPERTY TAXES

As you may recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2005	2.3%
2004	2.3%
2003	1.5%
2002	3.2%
2001	3.2%
2000	1.9%
1999	1.6%

The increases in the taxable value of property for 1999, 2000 and 2003 were the lowest increases since the 1994 adoption of Proposal A. Property taxes are the City's largest source of revenue. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. This factor should be considered when the City is involved in long-term financial planning.

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back".

However, subsequent to the passage of Proposal A, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation. For the year ended December, 2003, the City's Headlee maximum property tax rate for its operating levy was 0.7941 mills even though City Charter would allow the City to levy 1.0000 mill for operations. As indicated, due to the passage of Proposal A, the City will not be allowed to "roll back" up to 1.0000 mill. If the City requires additional millage capacity for operations, then a Headlee override vote would be necessary to levy the maximum mills.

TRANSPORTATION MATTERS

The State is now expecting lower than anticipated Act 51 receipts for the State's 2004/2005 fiscal year which ends September 30, 2005. The Michigan Department of Transportation reported that receipts through the six month period ended April 30, 2005 were 4% behind last year. Plante & Moran publishes annually forecasted Act 51 distribution rates which we receive from the State and are based on its forecast of anticipated collections at the State level. If actual collections are less than amounts forecasted by the Michigan Department of Transportation, this could likely result in revenue less than budgeted amounts in the City's Major and Local Street Funds. The lower than anticipated collections could impact the City's fiscal year 2005/2006 budget.

TAX MATTERS

The centerpiece of the Governor's FY 2005/2006 State of Michigan budget is significant business tax reform of the Michigan Single Business Tax. The Governor's business tax reform proposal appeared to spare local governments from any negative impact of the changes and actually contained a provision to address a loophole in property tax assessments related to commercial property (known as WPW). As of this date, there is no consensus in Lansing on the Governor's tax proposal and alternative proposals are being discussed in the Legislature. Therefore, the impact on local government from these potential changes cannot be determined.

A key component to most of the tax restructuring proposals is a significant credit on personal property taxes paid by certain businesses. Many questions have arisen from these proposals such as who determines the property that qualifies for credit, how will local governments be reimbursed by the State for the lost tax revenue as is the stated intention, etc. Debate on these tax restructuring proposals will continue over the next several months into the fall.

The loophole involving the inconsistent treatment of the assessment of commercial property is commonly referred to as the "WPW Case" involving the City of Troy. The inconsistent treatment occurs when the taxable value of a commercial property is reduced based on a loss in occupancy and a corresponding increase will not occur when occupancy increases resulting in a permanent taxable cap on property (subject to annual inflationary increases). This method of assessing commercial property (known as the "occupancy method") has been used by assessors to give commercial property owners a break when occupancy of their property has decreased and then to restore the taxable value of the property consistent with previous levels when occupancy increases. There are two bills in the House currently (House Bills 5096 and 5097) that have received hearings and consideration which would address this matter.

To the Honorable Mayor and
Members of the City Council
City of South Lyon

August 19, 2005

We would like to thank the City and all those involved with the audit process for their assistance. If any questions arise on reviewing the financial statements or on the above comments, we would be happy to discuss them with you or assist in the implementation of any of the recommendations. Thank you for the continued opportunity to be of service.

Very truly yours,

PLANTE & MORAN, PLLC

Leslie J. Pulver

A handwritten signature in black ink, appearing to read "Leslie J. Pulver".

Brian J. Camiller

A handwritten signature in black ink, appearing to read "Brian J. Camiller".